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SUBJECT: SOME ECONOMIC OPTIMISM PERSISTS IN YIWU

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11. (SBU) Summary: City officials and businesspersons in the Zhejiang Province manufacturing and trading city of Yiwu in mid-December continued to express optimism that Yiwu and its businesses will fare comparatively better than other parts of Zhejiang and other parts of China during this economic downturn. Despite slowing exports, officials predicted another year of double-digit economic growth rate for 2008. These interlocutors stressed that Yiwu's nimble private sector has adjusted quickly and well to past economic changes and challenges, and that many of the goods produced or traded in Yiwu are everyday necessities of modest expense that many persons will need to buy in bad times as well as good. Two Yiwu villages visited are themselves home to one hundred or more migrant farmers and home factory workers. Agriculture and rural development officials say they have not seen signs of social instability. End summary.

12. (U) Pol/Econ Chief, Pol-coned ELO currently serving in the Consular Section, and Pol Assistant visited Yiwu December 15-17 to meet with local government and Party School officials and examine the city's economic performance in the face of the global financial crisis. Government meetings included a Vice Mayor, Foreign Affairs Office (FAO) officials, and officials from Yiwu's Employment Management and Service Bureau, Development and Reform Bureau, Agricultural Bureau and Agricultural Affairs Office. In addition to visits to two relatively affluent nearby villages, we also visited two of Yiwu's larger manufacturers (villages and factories selected by the Yiwu FAO), both of whom reported production order backlogs but admitted they were deferring additional hiring or expansion plans at least until after the Lunar New Year period several weeks away.

Attracting Migrants; Growth Slowing but Still Strong

13. (SBU) Vice Mayor Li Xuhang, on an eighteen-month to two-year secondment to the Yiwu Municipal People's Government from the Ministry of Foreign Affairs, highlighted that Yiwu remains a magnet for migrant workers: the city's total administrative region is home to 700,000 native residents and over 1.1 million migrants on long term stay (population figure for Yiwu's total administrative area, not just the urban area of Yiwu). Relevant officials are considering abolishing the "hukou" household registration system that makes it difficult for long term migrants to receive certain social services in their place of residence. Vice Mayor Li said Yiwu is in a strong position to weather the financial downturn because its products are for daily use, and the city's well-established private sector is accustomed to market economics. Li noted that some Yiwu factories continue to hire new workers. (Consulate visitors saw help-wanted signs at many retail stores, restaurants and hotels

near their Yiwu hotel.) He said the city's GDP growth had slowed to 13.5 percent in the January-October 2008 period from year-earlier growth rates in the high teens. Yiwu is a diverse community, attracting immigrants or long-term visitors from other parts of Asia, the Middle East and Africa. Li said South Koreans are the largest registered expatriate community in Yiwu but registered long-term residents hailing from such countries as Afghanistan, Iran, Iraq, Syria and Lebanon are as a group more numerous than the South Koreans.

14. (SBU) Zhu Leming, Deputy Director of the Yiwu Development and Reform Bureau, said that Yiwu's full-year 2008 GDP growth rate will be less than the full-year 2007 growth rate of 15.7 percent, but most assuredly remain in double digits for 2008. Zhu underscored that Yiwu has a record of growth and achievement and economic betterment for those who live and work there, citing resident disposable income in 2007: Yiwu urban resident disposable income increased 15.9 percent in 2007 to 25,000 RMB (almost USD 3700) with rural residents' disposable income growing faster at 16.4% to 10,255 RMB (more than USD 1500). Local officials have enacted a number of measures to help local businesses throughout 2008. In the face of a credit squeeze dating back to the first half of 2008, Zhu said, the local government has adopted measures to help resolve property deed problems more expeditiously so that companies can use their properties as collateral for low-cost loans. Furthermore, merchants at the city's enormous and famous commodities fair year-round exhibition halls may now use their usage rights at the exhibition halls as collateral for loans; those with prime locations can borrow more against their leases than others tucked away on upper floors and back corners of the exhibition halls. New insurance products have been developed for Yiwu exporters to manage trade and currency risks. The city aims to

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work with Yiwu manufacturers and regulatory bodies to develop standards for many commodities so that Yiwu manufacturers can be national leaders. City officials are also working assiduously on fire prevention and workplace safety measures, Zhu said, arguing that such costs are far less than those that might be incurred in a workplace tragedy. Public works construction of new medical facilities in Yiwu already planned through 2010, and potential enlargement of the Yiwu Commodity Market site and contemplated establishment of a furniture commodity market in Yiwu may also provide some degree of protection from external economic impacts, Zhu added.

Official Unemployment Remains Low

15. (SBU) Huang Yunlong of the Yiwu Employment Management and Service Bureau said the global financial crisis has not had a large impact on Yiwu's employment rate. Huang said Yiwu's current official unemployment rate is 2.7 percent, well below the Zhejiang provincial target of 4 percent. He said the bureau had already started checking at train stations on whether many migrants are returning home and to gauge whether Yiwu needs to launch programs for returnees. As of our mid-December meeting, Huang said, Yiwu has seen very few jobless migrants returning to Yiwu from elsewhere.

Rural Development Progressing Around Yiwu

16. (SBU) Lou Liping of the Yiwu Agriculture Bureau said the local government encourages rural residents to transfer land usage rights and that so far the process is running smoothly. Lou said initial results have been beneficial, showing an increase in the scale of production, and in increased farmer income and increased land usage efficiency.

17. (SBU) Bao Xiaolong, Yiwu People's Government Agricultural Affairs Office (the city office responsible for agricultural development policy and rural infrastructure construction), said Yiwu has made progress in rural development. Established in April 2002, the office now has 13 staff covering 800 villages in the city's administrative district. With a budget of over 100 million RMB (almost USD 15 million), Bao and his colleagues

focus on infrastructure construction, public transport, potable water supply and sewage treatment systems. Currently the drinking water system covers 88.5 percent of the rural areas surrounding Yiwu and is expected to reach 100 percent coverage by 2010. Lou, Bao and accompanying FAO officials all stressed that Yiwu remains in a relatively strong economic situation, including in its rural areas, and that as of mid-December, the global financial crisis' impact on Yiwu's villages and rural conditions and employment had not been significant.

18. (SBU) The Yiwu FAO arranged a visit to two Yiwu villages near the Yiwu Airport, Yannan Cun and Lizu Cun. The former is home to about 800 persons and the latter to nearly 600 - with 100 or more migrant workers, primarily hailing from Henan, Jiangxi or Sichuan, additionally residing in each of those villages. Village chiefs and Party secretaries (several of whom admitted they themselves spend most of the week living and working in Yiwu's urban area) noted that many young adults native to the two villages commute to manufacturing and service jobs in the urban area of Yiwu, while the migrant workers tend village farm fields (vegetables for the city, some fruit orchards, too) or work in village enterprises which supply larger companies and merchants in the city. Officials in Yannan Cun said a very few migrant workers had recently departed for their home provinces, with most remaining very busy in farming. Yiwu's rapid economic growth clearly has brought money to these two villages. Yannan Cun consists almost entirely of recently constructed apartment buildings and recreational facilities, with remaining original dilapidated housing scheduled for replacement soon. While Yannan Cun has been largely rebuilt, Lizu Cun has taken the course of preserving and refurbishing older buildings, giving the village a more historical feel potentially suitable for tourism. Village leaders said several neighboring villages send their school children to a nearby new school. Officials and residents in both villages were pleased that the major tasks of providing paved roads, potable water supplies, electrification, garbage pickup and public health facilities and parks have been accomplished in recent years; roads were only paved in one of these villages in 2006.

Yiwu Commodity Market: Where "Made In China" Is
Sold To Everywhere Else

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19. (SBU) We made a morning visit to the Yiwu Commodity Market, where 62,000 or so vendors sell every conceivable household good in an area the size of four large airport terminals. Customer traffic was not heavy that morning, but even so we encountered potential purchasers from China, South Asia, the Middle East, Europe, and the United States. As many as 200 personnel help monitor the market to protect trademarks and maintain market order, according to an Yiwu Administration of Industry and Commerce official. Exhibitors who violate IPR can be expelled from the Commodity Market, and purchasers who do not pay for their shipments as contracted may have their names and amounts due posted on stadium-size electronic billboards throughout the Commodity Market grounds. Yiwu FAO Director Feng Meilan noted that Yiwu and the Yiwu Commodity Market presently fall under the jurisdiction of the Jinhua Customs District, but the city has lobbied the Central Government to establish of a Customs District just for Yiwu as a time- and cost-savings measure for traders doing business in Yiwu. Ms. Feng expressed optimism that the Customs District request would be granted. Feng suggested that U.S. states could arrange for up to six months of free exhibition space in the international section of the Yiwu Commodity Market, though not necessarily gratis if overlapping with the annual Yiwu Commodity Fair each October. Notwithstanding the relatively few customers we saw prowling the huge Yiwu Commodity Market, we passed large lines of backed up semi-trailers outside logistics and shipping facilities in the Yiwu area. Yiwu Development and Reform Bureau's Zhu said that the number of containers shipped from Yiwu had increased by more than 20 percent in 2008 versus 2007.

Frame and Sock Factories Still Filling Orders

¶10. (SBU) Managers of Huahong (www.chinaframe.com) and Mengda, Yiwu manufactures of frames and socks respectively, painted a cautiously optimistic picture of their economic position and prospects. Huahong supplies frames and artwork to U.S. companies such as Target, CVS and Walgreens. Mr. Ding there said the company began as a family business in 1998 and currently employs 3,900 people. He said the company has felt the impact of the global financial crisis in the form of declining orders from its smaller customers. Their larger customers are still ordering and to some extent are picking up the loss in volume from smaller customers. Ding said Huahong will send employees to tradeshows in Las Vegas and Bologna in early 2009 to drum up new business, but that the company will wait to see how many new orders are received before deciding after the Lunar New Year holidays whether to hire additional workers. The company is nearing completion of a new multi-story exhibition and sales center in Yiwu that it hopes will spur new sales with tourists and business visitors.

¶11. (SBU) At Mengda's sock factory in Yiwu, manager Zhou Xiaoli explained that the company already has sufficient orders to fill production capacity through the first half of 2009. Nonetheless, the company is postponing a real estate project planned for a site adjacent to the Yiwu factory until the economic situation becomes clearer. Mengda, a large OEM, makes socks for Puma, NBA, Goldtoe, and China's Ministry of Foreign Affairs, among others. Mengda paid USD one million to the National Basketball Association in the United States for the rights to make and sell NBA-logo socks in China. Zhou said 95 percent of the company's factory workers in Yiwu are migrant laborers. Workers with whom Poloff spoke originally hailed from Henan, Hunan and Anhui and all had been at this factory less than one year. Zhou highlighted that staff turnover has recently become quite low, perhaps as low as 5 percent on an annualized basis. The Yiwu factory has 5,600 sock knitting machines each capable of producing one sock every three minutes. Zhou feels that Mengda is in a strong position because socks and underwear are not luxury goods and he expects demand for the company's products to remain stable.

Comment

¶12. (SBU) Mid-December attitudes in Yiwu reflect a persistent streak of optimism about the future and a feeling that industries based on goods related to everyday use remain well-positioned in the current economic environment. Even so, signs of caution about business expansion are evident, and worker concerns about employment stability may be inferred from the sock company manager's comments about rapidly falling staff turnover rates. Consulate plans to include Yiwu again in our travels in a few months' time to look further at developments there and to gauge anew how this city of competitively priced

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commodities is faring in the face of the global financial crisis.
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